

TABLE OF CONTENTS

	PAGE
EXECUTIVE SUMMARY	i
INTRODUCTION	1
<i>Authority And Responsibility</i>	<i>1</i>
<i>Goals, Mission, And Objective</i>	<i>2</i>
<i>Role Of Auditing In City Government</i>	<i>2</i>
Chart I	
<i>Role Of Auditing In City Government</i>	<i>2</i>
AUDITING CITY DEPARTMENTS AND PROGRAMS	3
<i>Financial Audits</i>	<i>3</i>
<i>Performance Audits</i>	<i>4</i>
<i>Special Studies</i>	<i>4</i>
<i>Sales And Business License Tax Audit</i>	<i>5</i>
<i>Audit Recommendations Follow-up</i>	<i>5</i>
BENEFITS TO THE CITY OF SAN JOSE	6
<i>Cost Savings And Increased Revenues</i>	<i>6</i>
Chart II	
<i>Savings/Revenues vs Costs July 1993 Through June 1995</i>	<i>7</i>
Chart III	
<i>Savings/Revenues vs Costs May 1985 Through June 1995</i>	<i>7</i>
Chart IV	
<i>Savings/Revenues vs Costs For The Period May 1985 Through June 1991</i> <i>And For 1991-92, 1992-93, 1993-94, And 1994-95</i>	<i>8</i>

<i>Other Benefits To The City</i>	8
OFFICE OPERATIONS	9
<i>Budget</i>	10
Table I	
<i>Office Of The City Auditor Budget And Staffing Level</i> <i>From 1985-86 To 1994-95</i>	10
<i>Audit Strategy</i>	10
<i>Office Staffing</i>	11
Chart V	
<i>Office Of The City Auditor Organizational Chart</i> <i>As Of June 30, 1995</i>	12
<i>Staff Background And Experience</i>	13
Table II	
<i>Office Of The City Auditor</i> <i>Staff Education And Background</i>	14
<i>Office Of The City Auditor Performance Audit</i>	18
SUMMARY OF WORK PERFORMED	
JULY 1993 THROUGH JUNE 1995	19
Chart VI	
<i>Recommendations Made--July 1993 Through June 1995</i>	19
Chart VII	
<i>Status Of Recommendations--May 1985 Through June 1995</i>	20
Chart VIII	
<i>Types Of Recommendations--May 1985 Through June 1995</i>	20
SCHEDULE 1	
SUMMARY OF ACTIVITY COSTS AND RESULTS	
FOR THE PERIOD JULY 1993 THROUGH JUNE 1995	21
SUMMARY OF AUDIT REPORTS AND SPECIAL STUDIES	
<i>Activities And Accomplishments Of The City Auditor--</i> <i>July 1991 Through June 1993 (August 1993)</i>	24

*An Audit Of The City Of San Jose Franchise Fees And
Tax Remittances (September 1993) 24*

- Earlier Remittances Of Transient Occupancy Taxes And Cable Television Franchise Fees Would Produce A One-Time Revenue Increase Of \$1.6 Million And Increased Interest Earnings Of About \$28,000 Per Year 24
- Elimination Of The Exemption For Federal And State Employees Would Increase Transient Occupancy Tax Revenues By About \$80,000 Per Year 25

*An Audit Of The City Of San Jose Employees' Health Benefits
(November 1993) 25*

- Effective Health Care Cost Containment Could Save The City, Its Retirement Funds, And Employees \$2.9 Million Or More Per Year 25

*An Audit Of The San Jose Police Department's Operations Support
Services Division (November 1993) 26*

- Updating The San Jose Police Department's Citation And Release Procedures And Expanding The Processing Center Could Save The City More Than \$2 Million Annually In Booking Fees 26
- The City Needs To Review Or Audit Santa Clara County's Booking Fee Charges 27

*An Audit Of The City Of San Jose's Investment Of Workers'
Compensation Program Fund Reserves (December 1993) 28*

- The Workers' Compensation Fund's Investment Earnings Can Be Increased By An Estimated \$235,000 Per Year And The Fund's Financial Statement Liability Reduced By \$2.1 Million Without Jeopardizing The Fund's Fiscal Integrity 28

*An Audit Of The City Of San Jose's Workers' Compensation
Program Claims Database (January 1994) 28*

- The City Could Have Reduced Its Financial Statement Liability For Workers' Compensation By \$4.6 Million Over And Above The \$4 Million Previously Identified As Of June 30, 1993 28

*A Review Of San Jose Fire Department Emergency Medical Service Response
Times
From July 1, 1993 Through September 30, 1993 (January 1994) 30*

An Audit Of The San Jose Business License Taxes (June 1994) 30

- The City May Be Able To Collect \$7.3 Million In Back Business License Taxes, Penalties, And Interest From Real Estate Brokers And Agents, Cosmetologists, Insurance Brokers, And Sales Tax Permit Holders And Increase Annual Business License Taxes By \$1.6 Million 30
- The Finance Department Did Not Obtain Municipal Code-Required City Council Approval Before Waiving \$4,542 In Late Payment Penalties On Delinquent Business License Taxes 31

<i>An Audit Of The Santa Clara County Cities Association Financial Statements For The Five Months Ended June 30, 1990 And The Years Ended June 30, 1991, 1992, And 1993 (June 1994)</i>	32
<i>An Audit Of The City Of San Jose Workers' Compensation Program (August 1994)</i>	32
<ul style="list-style-type: none"> Expanded Use Of Modified Duty, Improved Intracity Coordination And Communication, And Restructured Benefits Could Have Significantly Reduced The \$2.6 Million In Disability Leave Benefits The City Paid In 1993 	32
<ul style="list-style-type: none"> A Comprehensive Workers' Compensation Cost Containment Program Could Reduce The Number Of Workers' Compensation Claims Filed And The Cost Of Those Claims That Are Filed 	33
<ul style="list-style-type: none"> The City Of San Jose Needs To Take Additional Steps To Address Workplace Safety 	34
<i>An Audit Of Parking Citations Processing (November 1994)</i>	35
<i>Update Of The Recommendation Regarding Weed Abatement (November 1994)</i>	35
<i>City Auditor Involvement In Negotiations With Santa Clara County Regarding Booking Fee Charges (November 1994)</i>	35
<i>Analysis Of The Criteria For Assessing Performance Of The Workers' Compensation Investigation Unit (January 1995)</i>	36
<i>Review Of The San Jose Development Corporation Financial Reports (January 1995)</i>	36
<i>An Audit Of The City Of San Jose Employees' Health Plan (March 1995)</i> ..	36
<ul style="list-style-type: none"> The City Of San Jose Can Improve Its Health Care Plan, Reduce Its Employees' And Retirees' Medical Costs By More Than \$1 Million A Year, And Potentially Recover An Additional \$905,000 In Prior Years' Overpayments 	36
<i>Response To Inquiry Regarding Weed Abatement Complaint Handling Procedures--City Versus County (March 1995)</i>	38
<i>A Review Of Booking Fee Cost Reimbursement (May 1995)</i>	38
<ul style="list-style-type: none"> The City Of San Jose Can Recoup An Estimated \$468,000 In Booking Fees Annually And \$825,000 On A One-Time Basis 	38
<i>Review Of Revenue And Cost Analysis Of Paramedic Options B And D (May 1995)</i>	39

<i>Internal Auditor's Report On Supplemental Schedule Of Federal Financial Assistance--</i>	
<i>OCJP Live Scan Terminal Project (May 1995)</i>	<i>39</i>

<i>An Audit Of The San Jose Police Department--Communications Division's Staffing And Scheduling (May 1995)</i>	<i>39</i>
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- The San Jose Police Department Can Save As Much As \$860,000 Per Year In Personnel Costs And Improve Its Service To The Public By Optimizing Its Deployment Of Dispatchers In The City's Communications Center 39
- The San Jose Police Department's Communications Division Can Improve Its Management Reporting 42

<i>Sales And Business License Tax Audit</i>	<i>42</i>
---	-----------

<i>Oversight Of The Annual Financial Audit</i>	<i>43</i>
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APPENDIX A	Click Here To View	
SUMMARY OF STATEMENT ON GOVERNMENT AUDITING STANDARDS		A-1

APPENDIX B	Click Here To View	
OFFICE OF THE CITY AUDITOR		
CITY COUNCIL APPROVAL OF ASSIGNMENT PROCEDURE		B-1

APPENDIX C	Click Here To View	
OFFICE OF THE CITY AUDITOR		
CITY OF SAN JOSE		
QUALITY CONTROL REVIEW		
FOR THE 24 MONTHS ENDED APRIL 30, 1995		
INDEPENDENT AUDITOR'S REPORT		C-1

INTRODUCTION

With city of San Jose (City) and Redevelopment Agency operating and capital budgets of over \$1 billion a year, the members of the San Jose City Council need an effective means to monitor the use of tax dollars and City and Redevelopment Agency activities and programs. As an independent audit function, the Office of the City Auditor plays an integral role in the oversight process. Findings and recommendations developed through the audit process have helped save tax dollars, increase revenue, and improve the management of City and Redevelopment Agency programs. Additionally, our independent reviews have served as an important, objective information source for the City Council, City management, the Redevelopment Agency, and the general public.

Authority And Responsibility

The San Jose City Charter prescribes the powers and duties of the Office of the City Auditor. Section 805 of the Charter grants to the City Council the authority to appoint the City Auditor. The Charter also outlines the City Auditor's primary duties as follows:

- Conduct or cause to be conducted annual post audits of all the City's fiscal transactions and accounts kept by or for the City including the examination and analysis of fiscal procedures and the examination, checking, and verification of accounts and expenditures;
- Conduct performance audits, as assigned by the City Council, to determine whether (1) City resources are being used in an economical, effective, and efficient manner; (2) established objectives are being met; and (3) desired results are being achieved;
- Conduct special audits and investigations as assigned by the City Council;
- Submit a monthly report to the City Council of the Office activities, findings, and recommendations to improve the administration of the City's fiscal affairs; and
- Perform other such auditing functions consistent with the City Charter and submit reports as required.

Section 805 also grants the City Auditor access and authority to examine all records of any City department, office, or agency, except those of an elected official.

Goals, Mission, And Objective

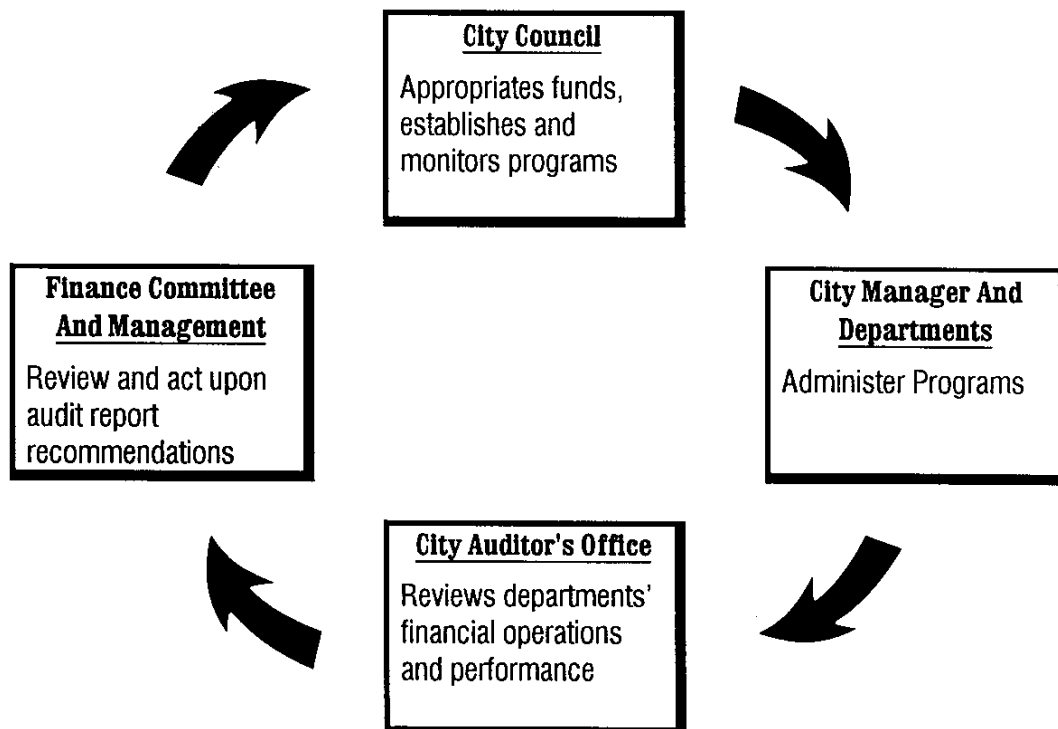
The goals of the Office of the City Auditor are to promote accountability to the public and to improve the economy, efficiency, and effectiveness of City government. Our mission is, at the direction of the City Council, to conduct or cause to be conducted financial and program performance reviews of City departments, offices, and agencies in accordance with applicable auditing standards. Our principal objective is to identify \$3 in savings or increased revenue for every \$1 of audit cost.

Role Of Auditing In City Government

The City Auditor's audits and reviews provide an insight into City departments, offices, agencies, and their programs. Such audits and reviews are but one step in the process of establishing City programs, evaluating their performance, providing the City Council and City Administration with needed information, and making any necessary changes to ensure that City programs are as efficient and effective as possible. Chart I describes the role of auditing in City government.

CHART I

ROLE OF AUDITING IN CITY GOVERNMENT



AUDITING CITY DEPARTMENTS AND PROGRAMS

The Office of the City Auditor performs or coordinates audits and studies according to government auditing standards promulgated by the United States General Accounting Office (See Appendix A). The following describes the scope of work performed.

Financial Audits

Financial audits include financial statement and financial related audits. Financial statement audits provide reasonable assurance that the financial statements of an audited entity present fairly the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

Financial related audits determine whether (a) financial information is presented in accordance with established or stated criteria, (b) the entity has adhered to specific financial compliance requirements, or (c) the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.

In accordance with the City Charter, an independent accounting firm conducts the financial statement and financial related audits of the City. The Office of the City Auditor coordinates the work of the independent accounting firm. The annual audit determines whether the financial statements fairly present the City's financial condition according to generally accepted accounting principles. The annual financial audit also includes reviews to determine City compliance with laws and regulations, particularly for those programs receiving federal funding.

The nature and scope of the financial audits the Office of the City Auditor performs differ significantly from the outside audit of the City's financial statements. The primary emphasis of the financial audits the Office conducts is to assess whether the City's internal control systems ensure the following:

- Resources are used in accordance with laws, regulations, and policies;
- Reliable data are obtained, maintained, and properly disclosed in financial and management reports; and
- Resources are safeguarded against loss due to fraud, theft, errors, and mismanagement.

These audits provide City management with the objective information required to ensure that internal control systems are working as intended.

Performance Audits

Performance audits include economy and efficiency audits and program audits. Economy and efficiency audits determine (1) whether the entity is acquiring, protecting, and using its resources (such as personnel, property, and space) economically and efficiently; (2) the causes of inefficiencies or uneconomical practices; and (3) whether the entity has complied with laws and regulations concerning matters of economy and efficiency.

Program audits determine (1) the extent to which City Council-established desired results or benefits are being achieved; (2) the effectiveness of audited organizations, programs, activities, or functions; and (3) whether the audited entity has complied with laws and regulations applicable to the program.

Audits that focus on efficiency issues typically evaluate the reasonableness of program costs relative to the results of services produced. Auditors may assess the relationship between staffing and other costs and measurable program benefits. Auditors may also (1) determine if a program has established appropriate goals and objectives, (2) review the adequacy of management's system for measuring success, (3) assess the extent to which desired levels of results are achieved, and (4) identify factors that inhibit satisfactory performance.

Audit reports usually make recommendations to management to correct inefficient practices and/or improve procedures to maximize resource utilization and productivity. The reports may also make recommendations to change management systems, City policies, and ordinances.

Special Studies

The Office of the City Auditor is occasionally requested to do thorough and impartial data collection, analysis, and reporting. The Office produces special studies to address these information needs. Special studies and reports are subject to the same rigorous audit methodology regarding data collection and quality control reviews. Special studies are intended to provide timely and objective information to the City Council, City Administration, and the public.

Sales And Business License Tax Audit

In July 1994, the Office of the City Auditor initiated a continuous audit of sales and business license taxes. The objectives of this audit are to identify

- San Jose retail businesses that do not file sales tax returns;
- San Jose's portion of sales taxes misallocated to other jurisdictions; and
- San Jose businesses that have paid sales taxes but not their San Jose business licenses.

Audit Recommendations Follow-up

It is the policy of the City that audit reviews be conducted and that any resulting recommendations be implemented or otherwise resolved to the satisfaction of the City Manager, the City Auditor, and the City Council. Accordingly, the Office of the City Auditor, in coordination with the City Administration, monitors the implementation of audit recommendations. The City Auditor prepares a quarterly follow-up report on the status of all unimplemented City Council-approved audit recommendations.

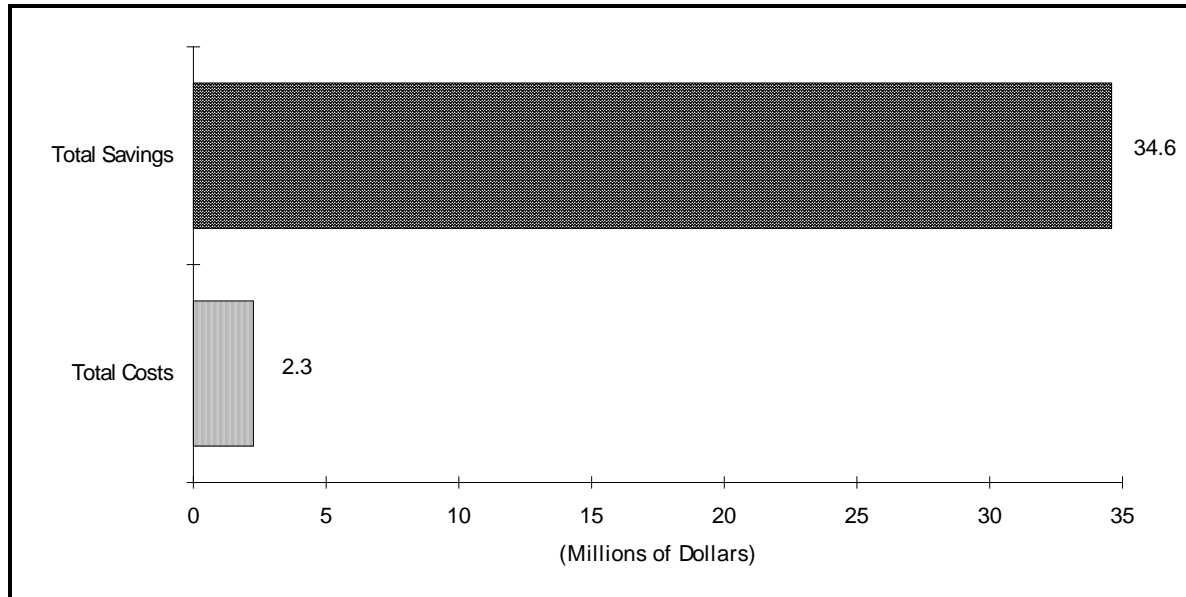
BENEFITS TO THE CITY OF SAN JOSE

The City Auditor's expanded audit approach has benefited the City in a variety of ways. Some audits have resulted in recommendations to reduce costs or increase revenues. Other audits have resulted in recommendations to increase effectiveness, use resources more efficiently, and improve internal controls, or provided objective, timely information to the City Council, City Administration, and the public.

Cost Savings And Increased Revenues

A principal objective of the Office of the City Auditor is to identify \$3 in savings or increased revenue for every \$1 of audit cost. The Office significantly exceeded this objective from July 1993 through June 1995 by achieving an audit payback ratio of over \$15 in cost savings or increased revenue for every \$1 of audit cost. Specifically, as shown in Chart II, from July 1993 through June 1995, the Office of the City Auditor identified an estimated \$34.6 million in opportunities for the City to increase revenues or reduce costs. In our opinion, the \$34.6 million is conservative. Specifically, we included only the first year of identified cost savings or additional revenues when, in fact, some of these savings or revenues will be realized year after year. For that same two-year period, audit costs were approximately \$2.3 million.

CHART II
SAVINGS/REVENUES VS COSTS JULY 1993 THROUGH JUNE 1995



As Chart III shows, from May 1985 through June 1995, the Office of the City Auditor identified \$66.5 million in cost savings or revenue enhancements against \$10.5 million in audit costs, achieving a ten-year audit payback ratio of over \$6 in cost savings or increased revenue for every \$1 of audit cost.

CHART III
SAVINGS/REVENUES VS COSTS MAY 1985 THROUGH JUNE 1995

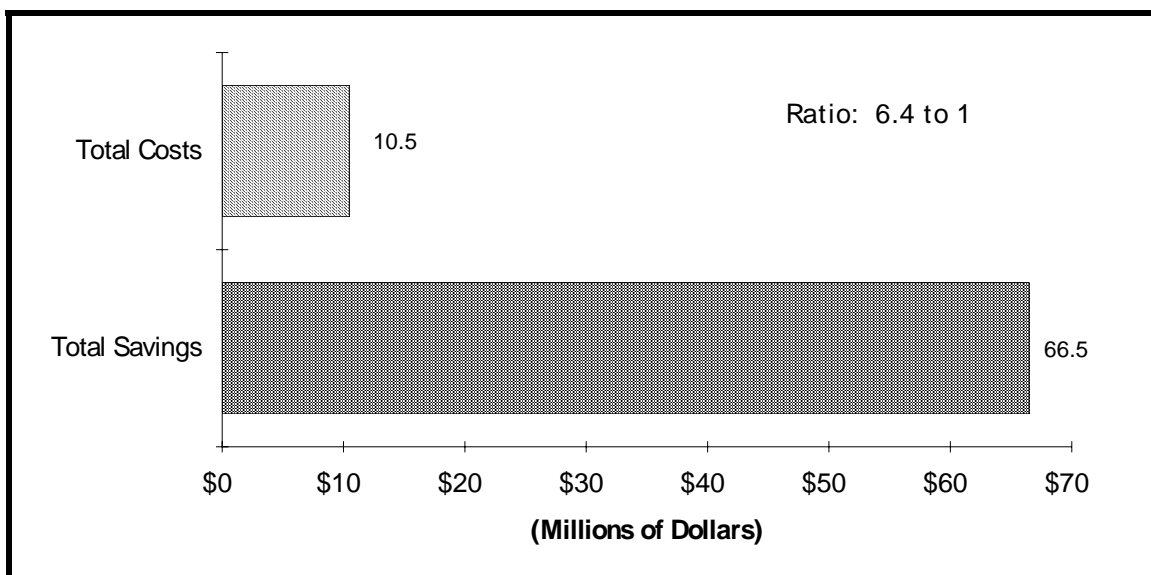
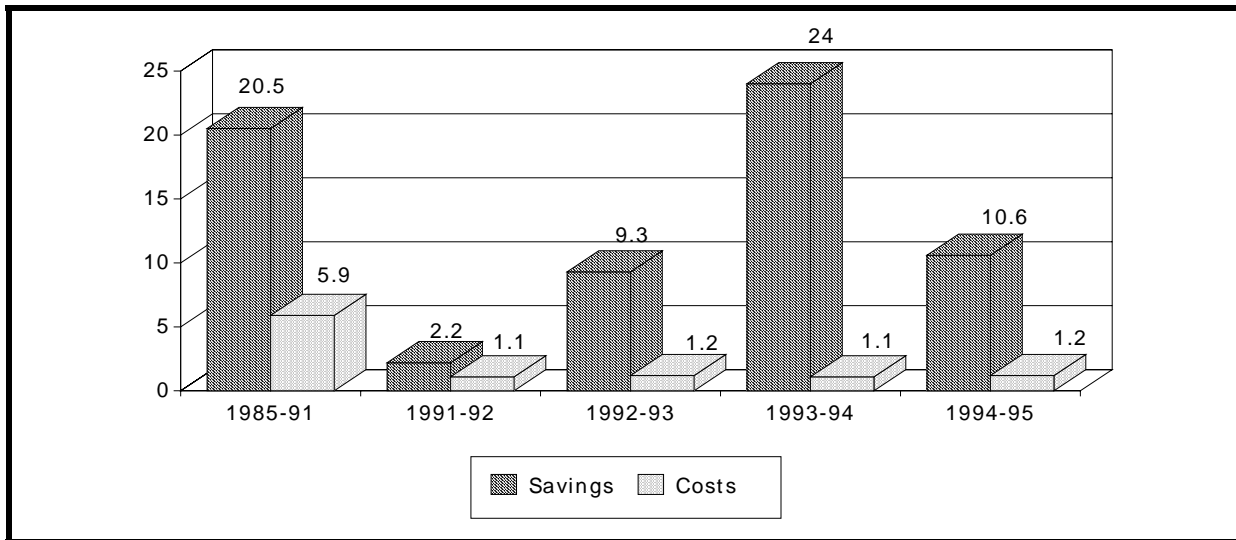


Chart IV compares the cost savings or revenue enhancements against the audit costs for the period May 1985 through June 1991 and for 1991-92, 1992-93, 1993-94, and 1994-95.

CHART IV
SAVINGS/REVENUES VS COSTS
FOR THE PERIOD MAY 1985 THROUGH JUNE 1991
AND FOR 1991-92, 1992-93, 1993-94, AND 1994-95



Other Benefits To The City

In addition to identifying cost savings and increased revenues, the Office of the City Auditor has benefited the City in the following ways:

- **Improved Effectiveness And Efficiency.** Audit recommendations have addressed ways auditees can improve their operations by increasing effectiveness and efficiency.
- **Strengthened Internal Controls.** Audits have also identified ways to improve departmental and program internal controls, safeguard assets, and reduce the risk of potential liability to the City.
- **Provided Objective Information.** Audit reports and special studies have also provided reliable, objective, and timely information to decision-makers and the public. This information has assisted the City Council and City Administration in making needed policy and administrative changes and has informed the public about the management of City government.

OFFICE OPERATIONS

Section 805 of the City Charter establishes the Office of the City Auditor and provides for the City Council to appoint the City Auditor and the manner in which the City Council may remove the City Auditor from office. Specifically, Section 805 states in part:

The office of City Auditor is hereby established. The City Auditor shall be appointed by the Council. Each such appointment shall be made as soon as such can reasonably be done after the expiration of the latest incumbent's term of office. Each such appointment shall be for a term ending four (4) years from and after the date of expiration of the immediately preceding term; provided, that if a vacancy should occur in such office before the expiration of the former incumbent's terms, the Council shall appoint a successor to serve only for the remainder of said former incumbent's term.

The office of City Auditor shall become vacant upon the happening before the expiration of his term of any of the events set forth in subsections (a), (b), (c), (d), (e), (h), (i), (j), (k) and (l) of Section 409 of this Charter. The Council, by resolution adopted by not less than ten (10) of its members may remove an incumbent from the office of City Auditor, before the expiration of his or her term, for misconduct, inefficiency, incompetence, inability or failure to perform the duties of such office or negligence in the performance of such duties, provided it first states in writing the reasons for such removal and gives the incumbent an opportunity to be heard before the Council in his or her own defense; otherwise, the Council may not remove an incumbent from such office before the expiration of his or her term.

The City Council's Finance and Rules Committees directly oversee the work of the City Auditor. The Finance Committee reviews and approves the City Auditor's annual audit workplan, subsequently reviews and approves audit report findings and recommendations, submits audit reports and approved recommendations to the full City Council for concurrence, and monitors the implementation of approved recommendations. The Rules Committee is responsible for approving City Councilmember or City Administration requests for audit services as they arise during the year.

Budget

Over the past ten years, the budget of the Office of the City Auditor has averaged slightly more than \$1 million per year, with approximately 94 percent spent for salaries and benefits (See Table I). During the past ten years, the Office of the City Auditor has averaged 17.5 authorized full-time positions, including both audit and administrative staffs. Due to a Citywide hiring freeze, the Office has operated at a reduced staffing level for the last four years.

TABLE I
OFFICE OF THE CITY AUDITOR
ADOPTED BUDGET AND STAFFING LEVEL
FROM 1985-86 TO 1994-95

<u>Fiscal Year</u>	<u>Authorized Positions</u>	<u>Personal</u>	<u>Nonpersonal</u>	<u>Equipment</u>	<u>Total Budget</u>
1985-86	19	\$ 944,919	\$92,410	\$21,647	\$1,058,976
1986-87	19	948,853	94,700	32,266	1,075,819
1987-88	19	974,660	56,475	0	1,031,135
1988-89	18	979,231	49,475	0	1,028,706
1989-90	18	1,106,756	40,025	9,100	1,155,881
1990-91	18	1,122,442	50,265	17,500	1,190,207
1991-92	17	1,158,311	50,265	40,000	1,248,576
1992-93	16	1,207,635	50,265	0	1,257,900
1993-94	15	1,097,977	31,064	0	1,129,041
1994-95	15.5	1,175,813	31,064	0	1,206,877

Audit Strategy

When the City Auditor assumed office in May 1985, he took immediate action to improve the efficiency and effectiveness of the Office's limited resources. He proposed to conduct the City Charter-required fiscal audits more efficiently and to secure additional staff to conduct expanded-scope performance audits.

Initially, the City Auditor reduced the staff time devoted almost exclusively to Charter-required reviews of payroll expenses, nonpersonal services expenses, petty cash and revenue accounts, and parking revenues.

In 1987, the Office of the City Auditor changed its auditing strategy to reflect new American Institute of Certified Public Accountants (AICPA) pronouncements. In pursuing this audit strategy, the Office implemented a rigorous risk assessment approach to identify

any threats (unwanted events) facing the program or activity under audit and to assess those controls or procedures in place to prevent, eliminate, or minimize the threats identified. The Office's risk assessment approach to auditing is widely recognized as an industry standard, and many governmental auditing units have borrowed from and replicated the Office's auditing procedures.

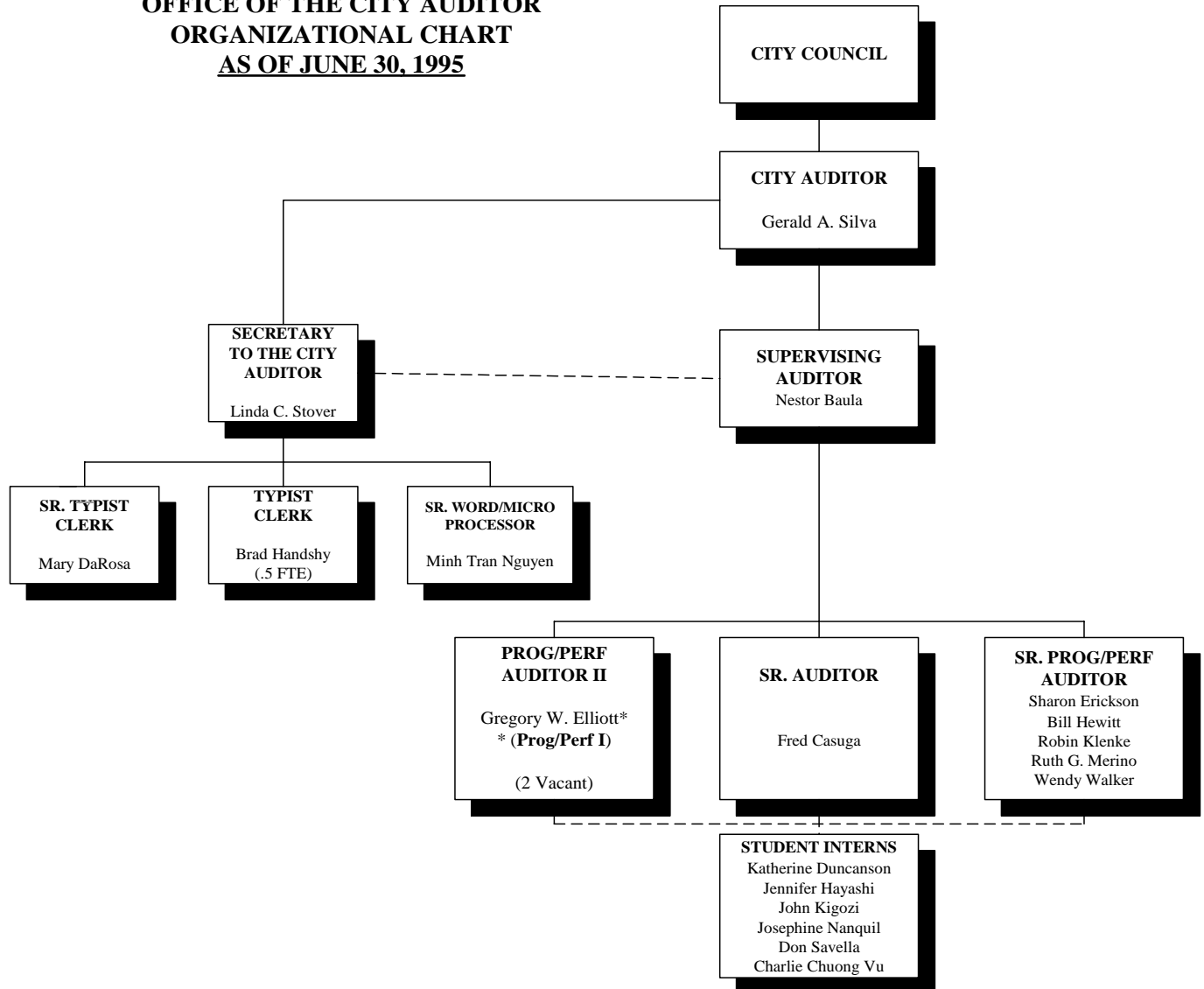
Office Staffing

In 1985, to implement expanded-scope performance audits, the City Council authorized the City Auditor six additional staff for a total of 19 positions. As of June 30, 1994, the City Auditor's Office had lost four of its authorized positions due to budget constraints. As of June 30, 1995, the Office of the City Auditor consisted of the City Auditor, a supervising auditor, nine auditors, four administrative staff, and six part-time student interns.¹ Chart V shows the organizational chart for the Office of the City Auditor as of June 30, 1995.

¹ Starting in July 1995, the Office of the City Auditor was authorized an increase in staffing and hired a second supervising auditor, one additional program performance auditor II and filled one program performance auditor II vacancy.

CHART V

OFFICE OF THE CITY AUDITOR ORGANIZATIONAL CHART AS OF JUNE 30, 1995



Staff Background And Experience

The members of the Office of the City Auditor have diverse educational backgrounds and work experience (See Table II). Staff educational backgrounds include accounting, economics, political science, business administration, education, finance, public administration, and linguistics. Further, several staff members have advanced academic degrees and/or professional certifications such as Certified Public Accountant, Certified Government Financial Manager, Certified Internal Auditor, Certified Fraud Examiner, Certified Information Systems Auditor, and Certified Quality Auditor. Staff members have had previous experience in public accounting, banking, data processing, education, health care, as well as federal, state, and local government. This wide range of training and experience brings a broad perspective to the variety of audit work the Office conducts.

Members of the staff have been officers or members in the following professional organizations: Institute of Internal Auditors, National Association of Local Government Auditors, National Intergovernmental Audit Forum, Western Intergovernmental Audit Forum, Association of Government Accountants, American Institute of Certified Public Accountants, California Society of Certified Public Accountants, American Society for Public Administration, Association of Fraud Examiners, Information Systems Audit and Control Association, Women in Government Service, and San Jose Management Association.

The City Auditor is a former member of the Board of Governors of the San Jose Chapter of the Institute of Internal Auditors, past president of the National Association of Local Government Auditors, former chairperson of the Western Intergovernmental Audit Forum, former local government representative to the prestigious National Intergovernmental Audit Forum Executive Committee, and a former member of the American Institute of Certified Public Accountants' Members in Government Committee. He was recently selected to serve on the Association of Government Accountants' National, State and Local Government Committee for three years.

TABLE II

**OFFICE OF THE CITY AUDITOR
STAFF EDUCATION AND BACKGROUND**

AUDITOR	TITLE	EDUCATION	PROFESSIONAL AFFILIATIONS	PRIOR WORK EXPERIENCE
Gerald A. Silva, CPA, CGFM	City Auditor	Bachelor of Science, Accounting , 1967	Former member of the Board of Governors, IIA, San Jose Chapter; Past President, National Association of Local Government Auditors; Former Chairman, Western Intergovernmental Audit Forum; Former Local Government Representative, National Intergovernmental Audit Forum Executive Committee Member; Former AICPA Members In Government Committee; GFOA; Who's Who in Government; California & Arizona State Boards of Accountancy; selected to serve on the Association of Government Accountants' National, State and Local Government Committee for 1995-96, 1996-97, and 1997-98	State Budget Director, State of Arizona Director of Program Auditing, State of Arizona Audit Manager, California Auditor General's Office Public Accounting
Nestor S. Baula, CPA, CIA, CFE	Supervising Auditor	Bachelor of Arts, Accounting and Economics, 1971	Member, IIA; Association of Certified Fraud Examiners; California Society of CPAs	Senior Auditor, Castle & Cooke, Inc.
Michael Edmonds, CIA (Hired after June 30, 1995)	Supervising Auditor	Bachelor of Arts, Political Science, 1974	Member, IIA; Member, National Association of Local Government Auditors	Internal Auditor, Contra Costa Water District, Staff Auditor, California Office of the Auditor General
William P. Hewitt, CIA, CISA, CFE, CQA	Senior Program Performance Auditor	Bachelor of Arts, Political Science, 1975	Member, IIA; Member, Association of Certified Fraud Examiners	Internal Audit Manager, Kelly-Moore Paint Co.
Sharon W. Erickson, CIA	Senior Program Performance Auditor	Bachelor of Arts, Political Science	Member, IIA, San Jose Chapter; Member, ASPA, Santa Clara Valley Chapter	Controller, Smith, Erickson, McDonald, Inc.

OFFICE OF THE CITY AUDITOR
STAFF EDUCATION AND BACKGROUND

<i>AUDITOR</i>	<i>TITLE</i>	<i>EDUCATION</i>	<i>PROFESSIONAL AFFILIATIONS</i>	<i>PRIOR WORK EXPERIENCE</i>
Wendy Walker	Senior Program Performance Auditor	Bachelor of Science, Accounting, 1986.	President, WINGS; Boardmember, SJMA.	Supervising Senior Accountant, KPMG Peat Marwick
Fred Casuga	Senior Auditor	Bachelor of Arts, Accounting, 1963.	Member, ASPA, Santa Clara Valley Chapter	Principal Accountant & Cost System Coordinator, San Francisco Airport
Ruth Garcia Merino, CISA	Senior Program Performance Auditor	Bachelor of Science, Business Administration, Finance and Accounting, 1978.	Member, IIA, San Jose Chapter; Member, Information Systems Audit and Control Association.	Business Banking Officer, Bank of America
Robin A. Klenke, MBA	Senior Program Performance Auditor	M.B.A., 1986 Bachelor of Arts, Anthropology/Linguistics, 1982.	Second Vice President, IIA, San Jose Chapter; Membership Chair, ASPA, Santa Clara Valley Chapter	Manager/Chief Technician, El Camino Hospital
Cynthia Honke, CPA (Hired after June 30, 1995)	Program Performance Auditor II	Bachelor of Science, Accounting, 1991.	Member, IIA, San Jose Chapter	Supervising Senior Accountant, KPMG Peat Marwick
Eduardo Luna, MPA (Hired after June 30, 1995)	Program Performance Auditor II	Bachelor of Science, Political Science, 1987 Master in Public Affairs, 1989.	Member, IIA, San Jose Chapter	Evaluator, U.S. General Accounting Office; Urban Consortium Manager, Public Technology, Inc.
Gregory W. Elliott, M.A.	Program Performance Auditor I	Associate in Arts, 1987 Bachelor of Science, 1989 M.A., Economics, 1992.	Member, IIA, San Jose Chapter	Auditor Intern, City Auditor's Office, San Jose, CA.

OFFICE OF THE CITY AUDITOR
STAFF EDUCATION AND BACKGROUND

<i>AUDITOR</i>	<i>TITLE</i>	<i>EDUCATION</i>	<i>PROFESSIONAL AFFILIATIONS</i>	<i>PRIOR WORK EXPERIENCE</i>
Linda Curtis Stover	Secretary to the City Auditor	Vocational Education-- Teaching Credential, 1979 Vocational Education-- Supervision Credential, 1984 Management/Supervision Certificate, 1980.	California Association of ROPs	Program Coordinator, Santa Cruz County ROP, Office of Education
Minh Tran Nguyen	Senior Word/Micro Processor	Associate in Arts, Office Administration & Word Processing, 1985.		Secretary, IBM Corporation
Mary Da Rosa	Senior Typist Clerk	Word Processing, 1986 Clerical Support, 1989.		Title Examiner, American Title Insurance Company
Brad Handshy	Typist Clerk II (Part-time)	Administrative Assistant Certificate, 1991		Desktop Publishing Assistant, VLSI Research; English Writing Sample Evaluator, East Side Union High School District.

OFFICE OF THE CITY AUDITOR
STAFF EDUCATION AND BACKGROUND

AUDITOR	TITLE	EDUCATION	PROFESSIONAL AFFILIATIONS	PRIOR WORK EXPERIENCE
Amy Brown (Hired after June 30, 1995)	Auditor Student Intern	Bachelor of Arts, Political Science, 1994 Currently enrolled in a Master in Public Administration program, graduating in June, 1996.		Field Representative for Assemblyman Sweeney; Student Intern for Oakland Mayor Harris.
Josephine Nanquil	Auditor Student Intern	Currently attending Santa Clara University, major in Accounting.		None.
Diosdado Savella	Auditor Student Intern	Associate in Arts, 1992 Currently attending San Jose State University, major in Accounting		U.S. Army Intelligence Corps; Technician, National Semiconductor.
Charlie Vu	Auditor Student Intern	Currently attending San Jose State University, major in Finance		None.

Abbreviations

AICPA	American Institute of Certified Public Accountants	CPA	Certified Public Accountant
ASPA	American Society for Public Administration	CQA	Certified Quality Auditor
CFE	Certified Fraud Examiner	GFOA	Government Finance Officers Association
CGFM	Certified Government Financial Manager	IIA	Institute of Internal Auditors
CIA	Certified Internal Auditor	SJMA	San Jose Management Association
CISA	Certified Information Systems Auditor	WINGS	Women in Government Service

Office Of The City Auditor Performance Audit

The City Charter requires the Office of the City Auditor to undergo a peer review performance audit on a biennial basis. Specifically, Section 805.2 of the City Charter states:

The Council shall contract with an independent audit firm, which has no other contracts with the City, to conduct a performance audit of the City Auditor's office at least every two years. The report of the performance audit shall be available to the public.

The Office has undergone five audits since the performance audit requirement was instituted.

In June 1987, the Office underwent its first such performance audit. A management representative from the California Auditor General's Office performed the review according to National State Auditors Association (NSAA) standards. This initial audit focused on the Office's formal written audit and office administration procedures and controls. The purpose of the audit was to determine if the procedures and controls provided reasonable assurance that City Auditor audits would meet the specified standards. Following the audit, the Auditor General issued two letters. One letter expressed an overall unqualified (clean) opinion on the City Auditor's system of quality control. The other letter identified opportunities to improve the Office's system of quality control, all of which have been implemented.

An independent auditor conducted the Office's subsequent performance audits in 1989, 1991, 1993, and 1995. The objective of these audits was to determine the Office's compliance with generally accepted government auditing standards, based on the peer review guidelines issued separately by the National State Auditor's Association (NSAA) and the National Association of Local Government Auditors (NALGA). The independent auditor's 1989, 1991, 1993, and 1995 reports stated that the Office's system of quality control provided reasonable assurance of compliance with the professional standards. Appendix C shows the independent auditor's 1995 report.

SUMMARY OF WORK PERFORMED **JULY 1993 THROUGH JUNE 1995**

From July 1993 through June 1995, the Office of the City Auditor completed 23 performance/ financial audit reports and special studies and 8 recommendation follow-up reports. These audit reports contained 104 recommendations to improve the economy, efficiency, effectiveness, and internal control within City government. Since the City Auditor started in May 1985, the Office has made 792 such recommendations. To date, the City Administration and the Redevelopment Agency have fully implemented or resolved over 90 percent of these recommendations. Chart VI shows the number of recommendations made, including internal control and efficiency/effectiveness recommendations, from July 1993 through June 1995. Charts VII and VIII show the status of implementation and the types of recommendations made from May 1985 through June 1995. Schedule I (page 21) summarizes the activity costs and results for the period of July 1993 through June 1995.

CHART VI
RECOMMENDATIONS MADE--JULY 1993 THROUGH JUNE 1995

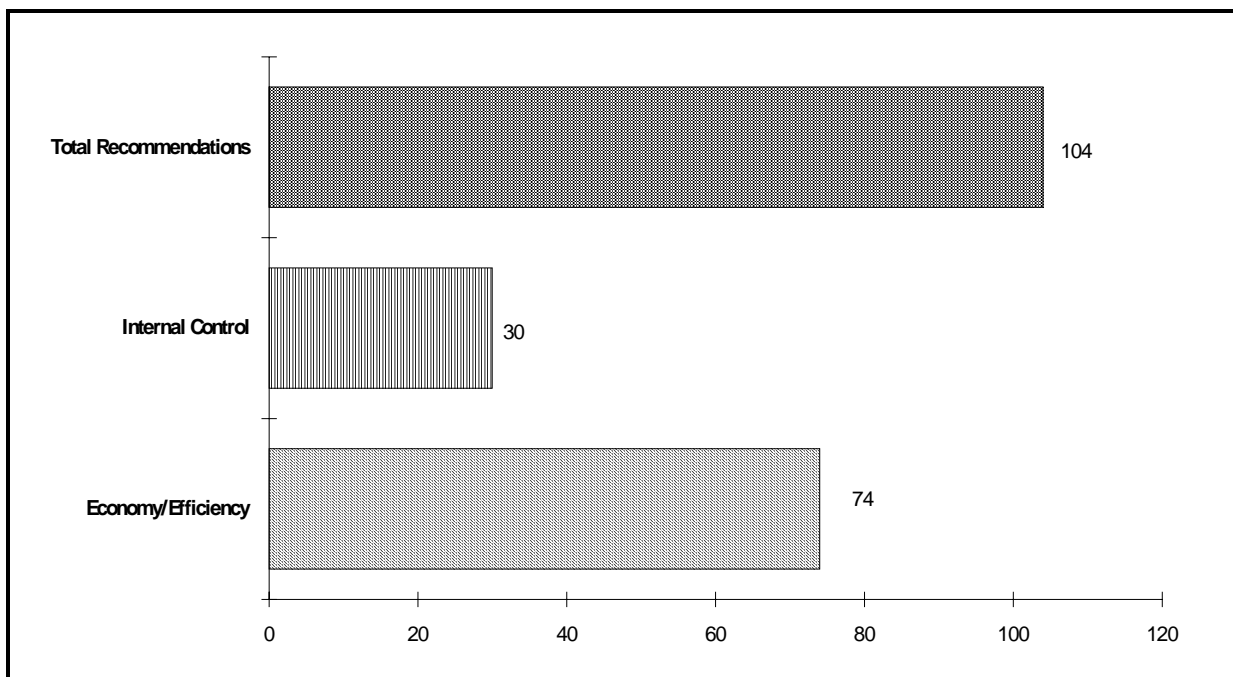


CHART VII
STATUS OF RECOMMENDATIONS--MAY 1985 THROUGH JUNE 1995

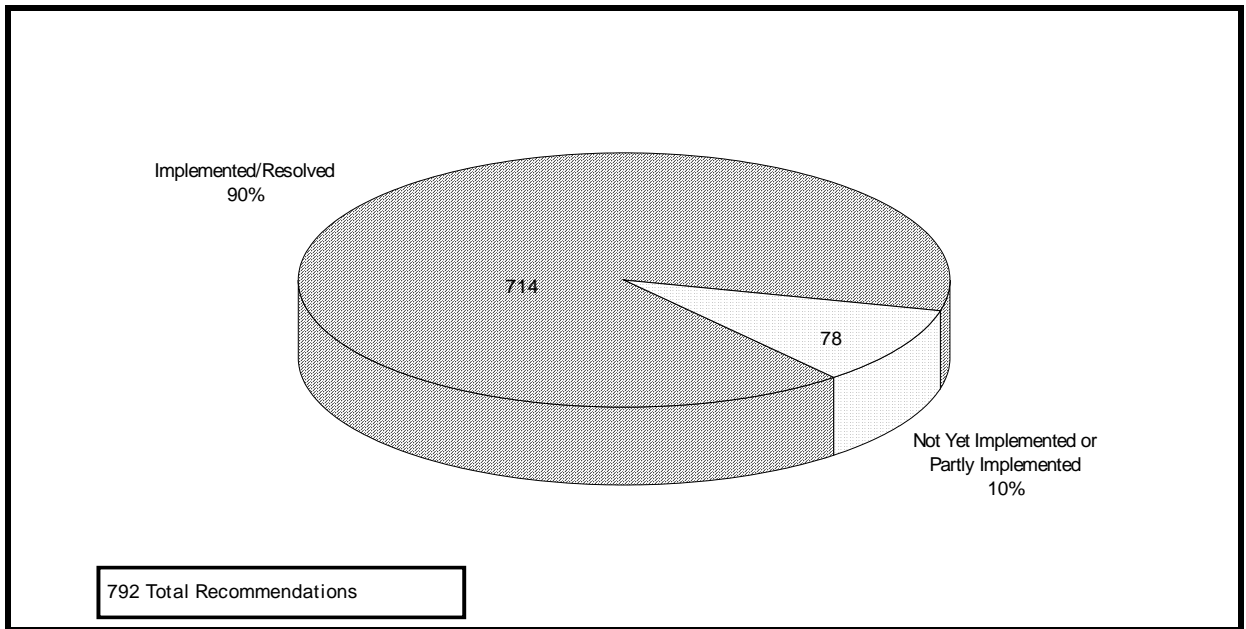
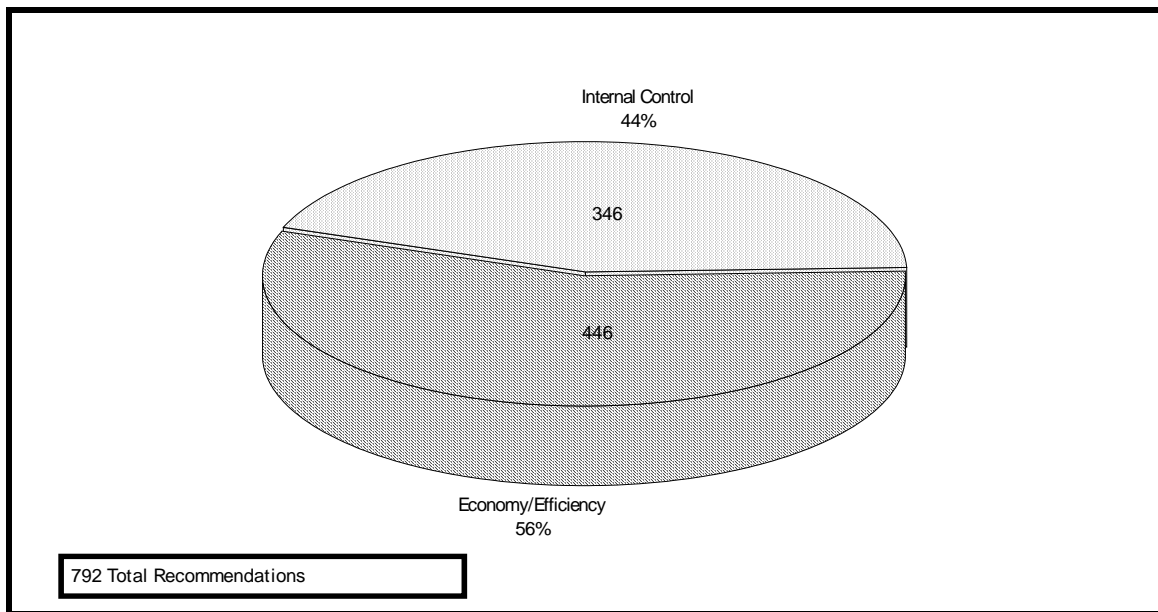


CHART VIII
TYPES OF RECOMMENDATIONS--MAY 1985 THROUGH JUNE 1995



SCHEDULE I

SUMMARY OF ACTIVITY COSTS AND RESULTS FOR THE PERIOD JULY 1993 THROUGH JUNE 1995

Report Number	Date	Report Title	Audit Cost	Identified Opportunities to Increase Revenues/ Reduce Costs	Number of Recommendations to Improve Efficiency/ Effectiveness	Number of Recommendations to Strengthen Internal Controls
93-06	08-10-93	Activities And Accomplishments Of The City Auditor - July 1991 Through June 1993	\$5,548		0	0
93-07	09-07-93	An Audit Of The City Of San Jose's Franchise Fees And Tax Remittances	\$27,319	\$1,708,000	6	0
93-08	11-05-93	An Audit Of The City Of San Jose Employees' Health Benefits	\$35,592	\$2,900,000	3	1
93-09	11-19-93	An Audit Of The San Jose Police Department's Operations Support Services Division	\$31,030		4	1
93-10	12-03-93	An Audit Of The City Of San Jose's Investment Of Workers' Compensation Program Fund Reserves	\$22,531	\$2,335,000	2	0
94-01	01-21-94	An Audit Of The City Of San Jose's Workers' Compensation Program Claims Database	\$67,594	\$8,200,000	2	5
94-02	01-21-94	A Review Of San Jose Fire Department Emergency Medical Services Response Times From July 1, 1993 Through September 30, 1993	\$13,362		0	0
94-03	06-02-94	An Audit Of San Jose Business License Taxes	\$38,546	\$8,905,000	9	2
94-04	06-10-94	Santa Clara County Cities Association Audited Financial Statements For Five Months Ended June 30, 1990 and Years Ended June 30, 1991, 1992, and 1993	\$12,690		4	2
94-05	08-19-94	An Audit Of The City Of San Jose's Workers' Compensation Program	\$73,410	\$1,740,000	29	12
9225	11-1994	An Audit Of Parking Citations Processing - West Computil .	\$32,185		0	0
9416	11-1994	Update Of Recommendations Regarding Weed Abatement	\$1,300	\$144,000	1	0
9403	11-1994	City Auditor Involvement In Negotiations With Santa Clara County Regarding Booking Fee Charges	\$13,065	\$4,200,000	2	0

Report Number	Date	Report Title	Audit Cost	Identified Opportunities to Increase Revenues/ Reduce Costs	Number of Recommendations to Improve Efficiency/ Effectiveness	Number of Recommendations to Strengthen Internal Controls
9505	01-1995	Analysis Of The Criteria For Assessing Performance Of The Workers' Compensation Investigation Unit	\$1,040		0	0
9414	01-1995	Review Of The San Jose Development Corporation Financial Reports	\$3,449		0	0
95-01	03-15-95	An Audit Of The City Of San Jose Employees' Health Plan	\$97,531	\$1,905,000	7	2
9506	03-1995	Response To Weed Abatement Complaints - City Versus County	\$1,300		0	0
95-02	05-05-95	A Review Of Booking Fee Cost Reimbursement	\$27,726	\$1,293,000	3	2
9512	05-1995	Review Of Revenue And Cost Analysis Of Paramedic Options B And D	\$2,351		0	0
9507	05-1995	Internal Auditor's Report On Supplemental Schedule Of Federal Financial Assistance - OCJP Live Scan Terminal Project	\$2,654		0	0
95-03	05-31-95	An Audit Of The San Jose Police Department - Communications Division's Staffing And Scheduling	\$239,227	\$860,000	2	3
9411		Sales And Business License Tax Audit	\$116,135	\$440,000	0	0
9522		Oversight Of The Annual Financial Audit	\$3,145		0	0
		Recommendations Follow-up	\$49,724			
		Internal Audit Quality Control	\$137,415			
		Departmental Administration	\$119,002			
		Audit-Related Activities (Meetings, Time-Reporting, etc.)	\$223,203			

Other Assignments	Audit Costs	Identified Opportunities to Increase Revenues/ Reduce Costs	Number of Recommendations to Improve Efficiency/ Effectiveness	Number of Recommendations to Strengthen Internal Controls
Vacation, Holiday, and Other Leaves	\$305,798			
Training	\$77,331			
Miscellaneous Projects And Activities	\$22,031			
Dropped Or Deferred Assignments	\$35,341			
Prior Period Assignments	\$71,301			
Assignments In Progress	\$343,517			
Totals	\$2,253,393	\$34,630,000	74	30

Performance Measures

July 1993 Through June 1995

Identified Opportunities to Increase Revenues or Reduce Costs	\$ 34, 630,000
Total Audit Costs	\$2,253,393
Ratio of Identified Opportunities to Increase Revenues or Reduce Costs to Total Costs	15 to 1

SUMMARY OF AUDIT REPORTS AND SPECIAL STUDIES

The following summarizes the audit reports and special studies that the Office of the City Auditor has issued from July 1993 through June 1995.

Activities and Accomplishments of the City Auditor -- July 1991 through June 1993 (August 1993)

This report summarizes the activities and accomplishments of the Office of the City Auditor from July 1991 through June 1993. This report also includes the independent auditor's 1993 report on the quality control review of the Office of the City Auditor.

An Audit Of The City of San Jose Franchise Fees and Tax Remittances (September 1993)

*Earlier Remittances Of Transient Occupancy Taxes And
Cable Television Franchise Fees Would Produce A One-
Time Revenue Increase Of \$1.6 Million And Increased
Interest Earnings Of About \$28,000 Per Year*

During 1992-93, the City's Finance Department collected \$137 million from sixteen categories of franchise fees, taxes, and permit revenues, of which twelve are estimated to exceed \$1 million each in remittances. Our review of these twelve franchise fee, tax, and permit categories revealed that

- Seven categories are paid monthly, while five are paid quarterly or less frequently;
- Of the five categories paid quarterly or less frequently, two--transient occupancy taxes (TOT) and cable television franchise fees--are the most susceptible to being paid on a monthly basis; and
- Monthly remittances of TOT and cable television franchise fees would generate a one-time revenue increase for the City of \$1.6 million and annual increased interest earnings of about \$28,000.

Accordingly, by amending the *San Jose Municipal Code* to allow for monthly remittance of TOT and cable television franchise fees, the City would, without incurring additional costs or raising taxes, (1) receive a one-time \$1.6 million revenue increase, (2) increase its annual

interest earnings by \$28,000, and (3) reduce the risk of hotels defaulting on paying their TOTs.

*Elimination Of The Exemption For Federal And State
Employees Would Increase Transient Occupancy
Tax Revenues By About \$80,000 Per Year*

The *San Jose Municipal Code* allows an exemption from paying TOTs for federal and state employees on official business. Our audit of the City's collection of TOTs revealed that

- Most of the cities proximate to San Jose do not exempt federal and state government employees on official business from paying TOTs;
- A recent California State Attorney General's opinion makes it easier for municipalities to eliminate existing federal and state employee exemptions from TOTs;
- Most of the major cities competing with San Jose for conventions either do not exempt federal and state government employees on official business from paying TOTs or significantly restrict the exemption;
- The federal government sets lodging per diem rates for its employees at levels intended to compensate employees for TOTs;
- San Jose's federal lodging per diem rate does not compensate for TOTs; and
- The federal government will increase San Jose's lodging per diem rate to compensate employees for TOTs if San Jose eliminates its federal and state employee exemption.

In our opinion, by amending the *San Jose Municipal Code* to eliminate the federal and state employee exemption from TOTs, the City will increase revenues by about \$80,000 per year without compromising San Jose's ability to compete with surrounding communities for hotel patrons.

An Audit of the City of San Jose Employees' Health Benefits (November 1993)

*Effective Health Care Cost Containment Could Save The City, Its
Retirement Funds, And Employees \$2.9 Million Or More Per Year*

The City offers its current and eligible former employees three health plan options of which two are health maintenance organization (HMO) plans and the third is the City of San

Jose Employees' Health Plan (CSJEHP). Those employees enrolled in the CSJEHP can save the City health care costs by using physicians and hospital services within a preferred provider organization (PPO) network. Our review revealed the following:

- Employees enrolled in the CSJEHP could have saved the City, its retirement plans, and themselves about \$1.1 million per year by using PPO physicians and hospital services;
- The City has a significantly smaller percentage of employees enrolled in HMOs and requires those employees not enrolled in HMOs to pay smaller annual deductibles, annual out-of-pocket maximums, and coinsurance percentages than the other governmental and quasi-governmental jurisdictions we surveyed; and
- The City is not achieving its premium-sharing strategy because of negotiated labor agreements.

As a result, the City, its retirement funds, and employees can save \$2.9 million or more per year and better control future cost increases by implementing specific improvements in the health care plan. In addition, our review revealed that an employee Benefits Review Forum (BRF) the Administration established in 1987 to help address issues such as health care cost containment has not been effective. In our opinion, the BRF could be a more effective vehicle for addressing the City's health care issues if (1) the Department of Human Resources (HRD) assumed from the Office of Employee Relations the administrative responsibility for the BRF; (2) the HRD provided the BRF with periodic comparative information on the City's health care programs; and (3) a third-party facilitator was used to moderate the BRF meetings.

An Audit of the San Jose Police Department's Operations Support Services Division (November 1993)

Updating The San Jose Police Department's Citation And Release Procedures And Expanding The Processing Center Could Save The City More Than \$2 Million Annually In Booking Fees

The California Penal Code allows police departments to cite and release persons under certain circumstances for misdemeanor charges. Accordingly, various cities have implemented citation and release programs that incorporate the applicable Penal Code sections. The San Jose Police Department (SJPd) has some procedures which partially address the release of an individual arrested on an on-view misdemeanor charge. However, our review revealed that the SJPd's procedures do not yet include the applicable Penal Code

sections needed to fully institute a comprehensive citation and release program. In our opinion, the SJPD should formally implement a citation and release program by

- Updating its procedures to incorporate the applicable Penal Code sections and
- Expanding the current processing center in the basement of the Police Administration Building (PAB) to accommodate the implementation of a citation and release program by moving the other SJPD functions currently located in the PAB basement to another location.

By implementing a citation and release program, the SJPD could save the city of San Jose (City) more than \$2 million annually in booking fees. Furthermore, expanding the processing center and relocating certain SJPD functions will provide enhanced services to the citizens of San Jose.

The City Needs To Review Or Audit Santa Clara County's Booking Fee Charges

California State law allows a county to collect fees from an arresting agency, such as the City, for the administrative costs of booking and processing arrested persons. Our review revealed (1) that the City has never reviewed or audited how the county of Santa Clara (County) determines the booking fees it charges the City and (2) that such reviews or audits are needed because

- From July 1, 1990, to March 31, 1993, the County collected from the City approximately \$10,970,000 in booking fees and
- Effective January 1, 1994, California State law (1) redefines the administrative costs that a county can charge an arresting agency for booking and processing arrested persons, (2) specifies the circumstances under which the arresting agency will be exempt from the payment of booking and processing fees, and (3) allows the arresting agency to recover from a convicted person the actual administrative costs of his or her booking and processing.

In our opinion, the City should review the County's records and procedures to ascertain its compliance with the new state guidelines that will go into effect on January 1, 1994. In addition, the City should implement procedures to recover those booking fees the new state guidelines prescribe.

An Audit of the City of San Jose's Investment of Workers' Compensation Program Fund Reserves (December 1993)

The Workers' Compensation Fund's Investment Earnings Can Be Increased By An Estimated \$235,000 Per Year And The Fund's Financial Statement Liability Reduced By \$2.1 Million Without Jeopardizing The Fund's Fiscal Integrity

The Workers' Compensation Fund (Fund) is pooled with other City funds for investment purposes. As of June 30, 1993, these pooled funds had an average maturity of 361 days and interest earnings of 4.765 percent. However, our review revealed that Fund reserves can be safely invested for much longer periods of time and thus realize additional interest earnings because

- The Fund has cash reserves of about \$32 million which theoretically can be invested for an indefinite period of time provided the City's biweekly payroll contributions to the Fund continue to cover ongoing Fund payouts and
- The State Compensation Insurance Fund has its cash reserves invested in instruments with an average maturity that is nearly ten (10) years longer than the City's and produces interest earnings of 6.25 percent.

As a result, we estimate that the Fund could safely realize about \$235,000 in additional interest earnings per year and the Fund's estimated financial statement liability could be reduced by about \$2.1 million if the City separately invested the Fund's cash reserves in longer maturity instruments.

An Audit of the City of San Jose's Workers' Compensation Program Claims Database (January 1994)

The City Could Have Reduced Its Financial Statement Liability For Workers' Compensation By \$4.6 Million Over And Above The \$4 Million Previously Identified As Of June 30, 1993

In 1974, the city of San Jose (City) withdrew from the state of California Workers' Compensation Program and began to self-insure its own workers' compensation program. As such, the City is responsible for paying all of the workers' compensation claims its employees file and attendant administrative expenses. Once an employee files a workers' compensation claim, the City's policy essentially requires the City to estimate the total amount the City will have to pay over the life of the claim and to "fully fund," or set aside, a reserve of cash equivalent to that amount plus related expenses. Our audit of the City's Workers' Compensation Program (Program) revealed the following:

- The City's preliminary estimate of Program liability as of June 30, 1993, was approximately \$10.9 million more than the Workers' Compensation Fund's (Fund) cash reserves. As such, the City's fully funded policy was not being followed. The Administration has proposed a multi-year program to address this situation;
- The City's Program liability as of June 30, 1993, was based upon an actuarial study that was conducted in accordance with an internal City policy that is outdated and unauthoritative;
- Recent and future actuarial studies to determine the City's Program liability have been and will be hampered by a lack of sufficient claims history information;
- Subsequent events reduced the City's Program liability as of June 30, 1993, by \$4 million;
- Our survey of other California cities revealed that several rely on their own workers' compensation claims databases to estimate their workers' compensation liabilities;
- San Jose's average claims liability is in line with other California cities;
- Over the last three years, the City has developed a computerized database for workers' compensation claims that is now reliable and accurate enough to satisfy Governmental Accounting Standards Board requirements. This new capability obviates the need for an actuarial study to estimate the City's Program liability;
- Reliance on the information in the Program claims database and early implementation of a Governmental Accounting Standards Board pronouncement could have reduced the City's financial statement liability by an additional \$4.6 million as of June 30, 1993; and
- Administrative and auditing procedures are needed to maintain the integrity of the claims database.

Accordingly, the City could have reduced by \$4.6 million both the City's June 30, 1993, financial statement liability and the amount that the City Council will need to appropriate between now and June 30, 1999, to fully fund the Program.

A Review of San Jose Fire Department Emergency Medical Service Response Times From July 1, 1993 Through September 30, 1993 (January 1994)

Our review of San Jose Fire Department (SJFD) responses to EMS events from July 1, 1993, through September 30, 1993, revealed the following:

- The SJFD responded to 9,147 EMS events during this period;
- City Council District 3 had the highest volume of EMS events while City Council District 10 had the lowest volume of EMS events;
- When compared to 1990 and 1992, the SJFD's responses to EMS events during July 1, 1993, through September 30, 1993, were slower Citywide and were also generally slower in each City Council district;
- In only one City Council district (District 1) did the SJFD meet its turnout time objective of 2 minutes or less for 90 percent of responses;
- In only three City Council districts (Districts 3, 5, and 6) did the SJFD meet its travel time objective of 4 minutes or less for 80 percent of responses;
- City Council District 4 had the lowest percentage of responses that were 2 minutes or less for turnout time (82 percent) and 4 minutes or less for travel time (56 percent); and
- When compared to our 1992 study results, neither the SJFD's 1993 travel time nor combined turnout time plus travel time performance in City Council District 4 improved.

An Audit of the San Jose Business License Taxes (June 1994)

The City May Be Able To Collect \$7.3 Million In Back Business License Taxes, Penalties, And Interest From Real Estate Brokers And Agents, Cosmetologists, Insurance Brokers, And Sales Tax Permit Holders And Increase Annual Business License Taxes By \$1.6 Million

Unless specifically exempted by the San Jose Municipal Code, all persons or businesses conducting business in San Jose are required to pay an annual business license tax. Any person who fails to pay the tax on or before the due date is liable for a penalty of 25

percent of one year's tax due. Should the tax remain unpaid for a period exceeding one month beyond the due date, an additional 25 percent penalty plus interest of 1.5 percent per month is assessed. Our review of real estate brokers and agents, cosmetologists, insurance brokers, and sales tax permit holders revealed that the City may be able to (1) collect \$7.3 million in back business license taxes, penalties, and interest and (2) increase annual business license taxes by an estimated \$1.6 million. It should be noted that our estimate of additional revenues may include real estate brokers and agents, cosmetologists, and insurance brokers who are not required to pay business license taxes because they are inactive, employees, or otherwise exempt. To the extent our estimate includes such persons, our estimate of additional business license taxes will be overstated. By contacting suspected unlicensed businesses through a mass-mailing program and implementing a tax amnesty program, the City may be able to cost-effectively recover a substantial portion of unpaid back business license taxes and increase its business license tax base. Furthermore, by using other City departments to inspect for current City business licenses, the City will be able to use existing resources to increase business license taxes. Finally, it should be noted that our estimate of additional business license taxes did not include numerous categories such as exempt branches, accounting and bookkeeping, consultants, attorneys, miscellaneous business services, restaurants, and janitorial services. To the extent these excluded categories include persons or businesses that should be paying business license taxes but are not, the City is losing additional revenue over and above the estimates shown above.

*The Finance Department Did Not Obtain Municipal Code-
Required City Council Approval Before Waiving \$4,542 In Late
Payment Penalties On Delinquent Business License Taxes*

The San Jose Municipal Code, section 4.76.505, prescribes that public market operators must pay their estimated business license taxes for the period December 1, 1993, to November 30, 1994, in three installments.

- The first installment was due on December 1, 1993;
- The second on April 1, 1994; and
- The third on June 1, 1994.

Municipal Code, section 4.76.290, empowers the City to collect penalties and interest on the taxes not paid by the due date. In addition, section 4.76.281 does not require the Director of the Finance Department to send the operator a notice of the business license tax due. Our review indicated that a public market operator failed to pay his December 1, 1993, installment on time and that the Finance Department did not assess and the operator did not pay the

required 25 percent penalty of \$4,542. By allowing a retroactive extension of the filing deadline, the Finance Department waived the late payment penalty without first obtaining Municipal Code-required City Council approval. The Finance Department should (1) implement procedures to ensure compliance with section 1.17.010 of the Municipal Code regarding the need to obtain City Council approval before waiving late payment penalties or postponing the late payment penalty date and (2) request a City Attorney opinion on the City's ability to collect the \$4,542 penalty previously waived.

**An Audit of the Santa Clara County Cities Association Financial Statements
for the Five Months Ended June 30, 1990 and the Years
Ended June 30, 1991, 1992, and 1993 (June 1994)**

This audit report summarizes our audit of the general fund balance sheets of the Santa Clara County Cities Association (SCCCA) as of June 30, 1990, 1991, 1992, and 1993, and the related statements of revenues and expenditures, changes in fund balances, and fixed assets for the five months ended June 30, 1990, and the years ended June 30, 1991, 1992, and 1993.

An Audit of the City of San Jose Workers' Compensation Program (August 1994)

*Expanded Use Of Modified Duty, Improved Intracity Coordination
And Communication, And Restructured Benefits Could Have Significantly
Reduced The \$2.6 Million In Disability Leave Benefits The City Paid In 1993*

It is the City's policy to return employees with temporary disability occupational injuries and benefits to modified duty as soon as medically practical. In order to effectuate a modified duty policy such as San Jose's, an organization needs (1) appropriate tone at the top, (2) intraorganizational coordination and communication, (3) adequate and timely information, and (4) employees who are willing to cooperate. However, our review revealed the following regarding the City's modified duty policy:

- Coordination and communication between the Workers' Compensation Program, City departments, and the City's payroll function are not adequate regarding disability leave approvals and monitoring;
- Modified duty opportunities have been limited;
- The cost of disability leave on a departmental basis has been essentially hidden; and

- Disability leave benefits provide a disincentive for employees to return to work on a modified duty basis.

As a result, the City's disability leave usage is nearly three times the average for other California jurisdictions, disability leave cost the City \$2.6 million and the equivalent of 65 full-time employees in 1993, and there is a widespread perception that employees are abusing their disability benefits and physicians are underprescribing modified duty work. San Jose could significantly reduce its cost of disability leave in terms of dollars and lost staff time by

- Increasing the availability of modified duty work;
- Coordinating work restrictions with physicians;
- Improving intracity coordination and communication regarding modified duty;
- Developing better information regarding the cost of disability leave; and
- Restructuring employee disability leave benefits.

A Comprehensive Workers' Compensation Cost Containment Program Could Reduce The Number Of Workers' Compensation Claims Filed And The Cost Of Those Claims That Are Filed

The state of California mandates what workers' compensation benefits the City must pay to its employees with work-related injuries or disabilities. However, our review revealed that there are numerous workers' compensation cost containment opportunities of which the City is not availing itself. Specifically, we identified the following:

- The City's average Workers' Compensation adjuster case load is 353-- which is 175 percent higher than the state's recommended level and higher than other jurisdictions we surveyed;
- The City does minimal utilization review;
- The City conducts few investigations into questionable claims;
- Permanent disability advances are made without supervisory review;
- The Workers' Compensation Procedures Manual is outdated;
- Workers' Compensation charges to City departments are not based on actual costs;
- Workers' Compensation adjusters contact employees within their goal of 48 hours less than 20 percent of the time;

- The City does not have an adequate follow-up program for employees who file claims;
- Not all City departments have workers' compensation liaisons; and
- Coordination between departments, Workers' Compensation, the City's Safety Officer, and the City's retirement systems needs improving.

As a result, San Jose (1) has a higher percentage of costly litigated cases than other jurisdictions, (2) has a large number of multiple claims, (3) is not closing cases as quickly as it should, (4) may not be identifying fraudulent claims, and (5) is not getting employees back to work as quickly as it could. In our opinion, the City should provide Workers' Compensation with additional resources. In addition, the Administration and Risk Management should expand its cost containment program for workers' compensation. By so doing, the number of workers' compensation claims can be reduced along with the cost of those claims that are filed.

The City Of San Jose Needs To Take Additional Steps To Address Workplace Safety

The state of California and the City's policies and employee agreements require the City to provide a safe work environment for its employees. In addition, authoritative sources have identified prevention as the number one cost control measure for workers' compensation. During the last few years the City Administration has taken several steps to address employee safety issues which apparently have had a positive effect on the number of workers' compensation claims filed and their costs. However, our review revealed that there are several additional steps the Administration needs to take to address workplace safety. Specifically, we identified that

- When compared to other California cities, San Jose's safety program is organizationally misplaced and not adequately emphasized;
- The City's Disability Claims Task Force, formed in 1992, has been only moderately successful;
- Only one City department has performance measures for employee safety; and
- The City has budgeted very little to prevent the kind of injuries that have cost the City at least \$29.3 million in the last two years.

In our opinion, the City's Safety Officer and risk management functions should be organizationally consolidated and report directly to the City Manager. In addition, the City Manager, the Safety Officer, and Risk Manager need to take steps to further address workplace safety issues.

An Audit of Parking Citations Processing (November 1994)

This is a confidential report on an audit assignment requested by the City Attorney to perform specific audit procedures to review the processing of city of San Jose parking citations.

Update of the Recommendation Regarding Weed Abatement (November 1994)

The City Auditor recommended that the city of San Jose (City) enter into negotiations with Santa Clara County to effect transferring the responsibility for abating weeds on privately owned parcels in the city of San Jose from the City to Santa Clara County.

By so doing,

- The City's Neighborhood Services Department will be relieved of a \$132,900 per year program that is proposed to be only 50 percent cost recovery;
- San Jose and the ten other Santa Clara County cities that already use the County's program will mutually benefit from increased economies of scale; and
- San Jose property owners will save an estimated \$78,000 per year in reduced weed abatement costs.

City Auditor Involvement In Negotiations With Santa Clara County Regarding Booking Fee Charges (November 1994)

The City Auditor was the lead person in negotiating a reduction of the booking fees Santa Clara County charged to the county's cities. The resulting agreement set a fixed amount of booking fees for the next three fiscal years starting with 1994-95 and provided a mechanism to determine booking fees through the year 1999-2000. The City's portion of the fees was \$2,993,703 which was down from the \$4,142,298 that the City paid in 1992-93, the \$3,747,712 paid in 1993-94 and the \$4,529,593 budgeted for 1994-95. If the City reduces its

bookings by 15 percent in years four, five, and six of the agreement, the City's cost can be reduced by an additional \$500,000 per year.

Analysis Of The Criteria For Assessing Performance Of The Workers' Compensation Investigation Unit (January 1995)

One of the recommendations from An Audit of the City of San Jose Workers' Compensation Program (August 1994) was to conduct a targeted number of investigations and fund a one-year pilot claims investigation unit. After the one-year pilot, the audit report recommended that management should assess whether to continue and/or expand the program. This analysis presented a set of criteria for assessing the performance of the Workers' Compensation Investigation Unit.

Review of the San Jose Development Corporation Financial Reports (January 1995)

This memorandum summarizes the results of the City Auditor's review of the financial audit report and audit workpapers on the San Jose Development Corporation.

An Audit Of The City Of San Jose Employees' Health Plan (March 1995)

*The City Of San Jose Can Improve Its Health Care Plan,
Reduce Its Employees' And Retirees' Medical Costs
By More Than \$1 Million A Year, And Potentially Recover
An Additional \$905,000 In Prior Years' Overpayments*

The city of San Jose (City) offers its employees three health care plans of which one is the City of San Jose Employees' Health Plan (CSJEHP). The City contracts with PPO Alliance to administer a series of contractual arrangements with a network of physicians, hospitals, and other medical service providers. The medical service providers with which PPO Alliance contracts are the City's preferred provider organization (PPO). As such, it is in the best interest of the City and its employees that PPO Alliance contract with as many medical service providers as possible and that it negotiate the best possible price for specific medical procedures. In addition, the City contracts with a third-party administrator--Foundation Health Preferred Administrators (FHPA)--to pay and administer medical claims that medical service providers submit for payment for services to those employees in the CSJEHP. As such, it is in the best interest of the City and its employees that the FHPA pay

claims in a timely manner and take advantage of all negotiated or available medical service discounts.

Our review of the City's contractual arrangement with PPO Alliance and FHPA and their performance under the City's contract revealed the following:

- At the recommendation of the Benefits Review Forum, the City awarded a contract to PPO Alliance without going through a competitive bidding process, and documented evidence does not support the City's decision to award a contract to FHPA;
- FHPA was unable to provide us with documentation for 33 of the 242 claims selected for our review;
- FHPA has not paid medical service claims in a timely manner;
- FHPA has not taken advantage of negotiated or available medical service discounts. As a result, the City's employees and retirees paid \$890,000 unnecessarily over the last four years; and
- FHPA paid about \$15,000 for ineligible claims during the last four years.

The Santa Clara County PPO option for its employees is the Preferred 100 Plan. Comparing Santa Clara County's Preferred 100 Plan to the CSJEHP revealed the following:

- PPO Alliance has not provided the City or its employees with a number of medical service providers in its PPO comparable to the County's and
- PPO Alliance has not negotiated discount rates with medical service providers in its PPO comparable to the County's PPO.

Our review also revealed that the City has an opportunity to consolidate with Santa Clara County for a PPO and that by so doing the City will be able to

- Reduce premium costs for both its employees and retirees;
- Obtain better price discounts for medical services;
- Obtain fast-payment discounts;
- Implement additional concurrent utilization reviews of medical service bills; and
- Increase employee use of the PPO.

By forming a medical services purchasing coalition with Santa Clara County, we estimate that the City will save its employees and retirees more than \$1 million a year in medical service costs and health insurance premiums. In addition, the City should pursue reimbursement of \$905,000 in prior years' overpayments.

Response To Inquiry regarding Weed Abatement Complaint Handling Procedures--City Versus County (March 1995)

This is a memorandum summarizing the City Auditor staff research on the weed abatement complaint handling procedure of the county of Santa Clara, as compared to that of the city of San Jose (City). We conducted this research to help resolve obstacles to transferring the City's Weed Abatement Program to Santa Clara County. Our research indicated that the County will modify its complaint handling procedure to accommodate the City's needs.

A Review Of Booking Fee Cost Reimbursement (May 1995)

The City Of San Jose Can Recoup An Estimated \$468,000 In Booking Fees Annually And \$825,000 On A One-Time Basis

In November 1993, the City Auditor's Office issued a report on *An Audit Of The San Jose Police Department's Operations Support Services Division*. In the audit report, we made a recommendation that the City Attorney's Office, the City Manager's Budget Office, and the San Jose Police Department (SJPd)

- Implement procedures to recover the administrative costs of booking arrestees from the convicted persons as prescribed in the new state guidelines.

As of May 1995, this recommendation has been outstanding for sixteen months. In order to determine why this recommendation is still outstanding, we contacted the Superior and Municipal Courts of Santa Clara County. The courts informed us that the city of San Jose (City) does not file necessary affidavits (notices of booking fees due) when it files complaints against defendants with the District Attorney's Office. In addition, we found that both courts have procedures that address the issue of ordering reimbursement of the booking fee costs to the arresting agency. We also contacted the presiding judge of the Municipal Court who stated that, if the City should decide to start filing affidavits, each member of the bench will consider the City's request when arriving at a disposition decision. Finally, once the SJPd begins to file affidavits, the City needs to establish a billing and collection process to ensure

that convicted persons reimburse the City for booking fee costs. We estimate that the City could recoup \$468,000 annually and \$825,000 on a one-time basis if it filed affidavits when it filed complaints against defendants with the District Attorney's Office and established a billing and collection process for booking fees.

Review Of Revenue And Cost Analysis Of Paramedic Options B And D (May 1995)

Since early 1995, the city of San Jose, Santa Clara County, and American Medical Response-West (AMRW) have been negotiating a cost sharing arrangement to fund a City paramedic-level response to emergency medical service calls known as Option D. These negotiations have resulted in AMRW agreeing to pay the City, over a four-year period, \$1,000,000 to reimburse a portion of the City's start-up costs in 1994-95 and 1995-96. In addition, AMRW has agreed to pay the City \$1,100,000 for Option D ongoing costs starting in 1996-97. According to the City Administration, this level of funding will leave a \$499,701 start-up cost shortfall and a \$471,451 ongoing shortfall (starting in 1996-97). The City Auditor's review of the City's Option D costs revealed that the City's start-up costs and ongoing costs may be overstated by \$219,198 and \$179,231, respectively. As a result, the City's start-up and ongoing shortfalls may be reduced to \$280,503 and \$292,220, respectively.

Internal Auditor's Report On Supplemental Schedule Of Federal Financial Assistance--OCJP Live Scan Terminal Project (May 1995)

This audit report summarizes our audit of a \$32,000 Office of Criminal Justice Planning grant to the city of San Jose Police Department for a Live Scan Terminal Project for the year ended June 30, 1994. Based on the procedures we performed, we were satisfied that the receipt and expenditure of funds were in accordance with the city of San Jose's internal controls and procedures.

An Audit Of The San Jose Police Department--Communications Division's Staffing And Scheduling (May 1995)

The San Jose Police Department Can Save As Much As \$860,000 Per Year In Personnel Costs And Improve Its Service To The Public By Optimizing Its Deployment Of Dispatchers In The City's Communications Center

The San Jose Police Department's (SJPD) Bureau of Technical Services, Communications Division, employs 115 public safety dispatchers (PSDs) to answer 911 calls and non-emergency calls at the city of San Jose's (City) Communications Center (Center) to provide coverage 24 hours a day 365 days a year. During the course of our audit,

- The Division changed to off-hook answering. As a result, average 911 call answering improved from 11 seconds in June 1994 to 3 seconds in February 1995. In addition, call answering improved from 33 percent of 911 calls answered within 5 seconds in June 1994 to 83 percent of 911 calls answered within 5 seconds in February 1995.
- The Division implemented procedural changes to lower the maximum 911 call-answering time. As a result, the number of 911 calls that took over 60 seconds to answer decreased from 771 calls in August 1994 to approximately 4 calls in February 1995. In addition, the percentage of 911 calls that were lost because callers hung up before their calls were answered decreased from 6 percent in August 1994 to 2 percent in February 1995.

These improvements notwithstanding, our review also revealed the following regarding the Center's staffing and resultant efficiency and effectiveness:

- The Division staffs the Center with a 5-shift pattern with no shift starting later than 9 p.m. and allows 45 minutes for PSD briefings and
- The average PSD is on short-term or long-term leave or training 22.6 percent of the time.

In our opinion, the Center's current staffing pattern is inherently inefficient and costly and has caused the following consequences:

- The Center's staffing pattern does not correspond to call volume-driven staffing demand. As a result, significant overstaffing occurs during some periods of the day while understaffing occurs during other periods of the day;
- The Center frequently falls below its own minimum staffing level in spite of PSDs earning \$300,000 per year in paid overtime or compensatory time off;
- The Division did not meet one of its four emergency call-answering objectives in 1991-92, 1992-93, or 1993-94;
- The Division's revised emergency call-answering objectives since 1993-94 are slower than the objectives the state of California recommends;
- During June and August 1994, 15 percent and 21 percent, respectively, of those emergency callers whom PSDs deemed not to be in an emergency situation hung up after being put on hold. Those callers who hung up did so

after PSDs put them on hold an average of 2 minutes 10 seconds in June 1994 and 2 minutes 31 seconds in August 1994. Further, there were 7 days during June 1994, 11 days during August 1994, 8 days during September 1994, and 8 days in February 1995 that an emergency caller whom a PSD deemed not to be in an emergency situation was put on hold for at least 15 minutes with one caller being put on hold for at least 34 minutes; and

- During February 1995, 24 percent of those emergency callers whom PSDs deemed not to be in an emergency situation hung up after being put on hold. This is twice the percentage of calls lost when compared to February 1994.

In May 1995, the Division will assume responsibility for non-emergency report-writing calls that the SJPd's Operations Support Services Division currently handles. The Division has proposed to the City Administration that it can assume this additional responsibility by adding 9 PSDs, for a total of 124 PSDs. However, our review indicates that unless the Division either adds 12 more PSDs or deploys its existing PSDs more efficiently the conditions described for emergency callers whom PSDs deem not to be in an emergency situation will be perpetuated after May 1995 and the Division will continue to function below its own minimum staffing level. Finally, the City Auditor's Office used a computer model to optimize the scheduling of PSDs in the Center. The results of our optimization were that the Division can (1) eliminate 10 PSD positions while at the same time significantly improve its ability to function at or above its minimum staffing level, (2) avoid periods of overstaffing, and (3) save the City \$860,000 per year in regular personnel, overtime, and compensatory time costs. Accordingly, we recommend that the SJPd and the City Administration use the information in this report to develop, and forward to the City Council for concurrence, a staffing proposal for the Center that is both responsive to the public's emergency calling needs and the least costly to the City.

*The San Jose Police Department's Communications
Division Can Improve Its Management Reporting*

During our audit, we noted the Division's computer system does not generate information regarding the length of time it takes to answer 911 calls which are deemed to be non-emergency and transferred to a secondary tier call-taker. We also noted that the Division has inconsistently reported on its Center call volume. Further, the Division does not report the maximum call-answering delays for answered or lost emergency and non-emergency dispatch calls. Finally, the Division is lacking an analyst position to assist in management reporting. In our opinion, the Division should generate information regarding the length of time it takes to answer non-emergency 911 calls, itemize the calls it receives by type of call, report on the

maximum call-answering delays for answered and lost emergency and non-emergency dispatch calls, and include such information in its trimester program management reports. Accordingly, we recommend that the Division and the City Manager request funding for a senior analyst position for the Bureau of Technical Services during the mid-year 1995-96 budget review process.

Sales And Business License Tax Audit

This is an on-going audit of the city of San Jose's sales and business taxes which we started in July 1994. Our objectives are to identify:

- San Jose retail businesses that do not file sales tax returns;
- San Jose's portion of sales taxes misallocated to other jurisdictions; and
- San Jose businesses that have paid sales taxes but not their San Jose business licenses.

In conducting our ongoing audit, we:

- Compared the San Jose telephone and other directories with sales tax and business tax databases to ensure that companies and individuals doing retail business in San Jose were using a San Jose sales tax identification code;
- Visited business locations at the city of San Jose's periphery and compared these business locations to the sales tax and business tax databases to ensure that businesses within the San Jose borders were using a San Jose sales tax identification code;
- Called businesses to request copies of the sales tax returns;
- Reported any identified nonfiling or misallocation of sales taxes to the State Board of Equalization; and
- Reported any nonpayment of San Jose business taxes to the Finance Department for collection.

During the first year of the audit (fiscal year ended June 30, 1995), the staff identified about \$445,000 in additional revenues. The audit findings included:

- Forty-three San Jose retail businesses as having mispaid sales taxes to another jurisdiction. We estimate that the local portion of the sales taxes to be allocated to San Jose by these businesses for the year ended

June 30, 1995, and projected six quarters would be \$333,075. As of June 30, 1995, the State Board of Equalization has confirmed that \$85,478 in sales taxes from these businesses has been credited to the city of San Jose.

- Four hundred San Jose retail businesses as not having paid the San Jose business license. We estimate that these businesses owed San Jose \$111,592 in applicable past years' and current year business taxes plus penalties and interest. The Finance Department has confirmed that the City has received \$40,318 from these businesses.

Oversight of the Annual Financial Audit

The Office of the City Auditor oversaw the 1993-94 and 1994-95 financial audit and single audit conducted by the City's independent auditors, KPMG Peat Marwick LLP. The Office of the City Auditor also initiated the Request for Proposals (RFP) process to select the City's independent auditor for three fiscal years starting 1995-96.